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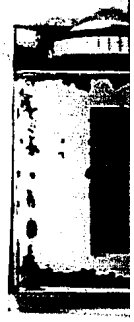

FINANICAL SYSTEM OF THE MONGOLIAN PEOPLE'S REPUBLIC

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Finansy i Kredit SSSR
Moscow, Jul 1953

In 1921, the Mongolian people, guided by the National Revolutionary Party, overthrew the power of foreign imperialists and feudal lords, and then established a people's government. The Mongolian people have been able to make progress by jumping from feudalism to democracy. The people's democratic government has taken into its own hands the means of production and has established the basis for a socialist economy. From 1940 on, the Mongolian people have made great strides along the path of socialism.

The Eleventh Congress of the Mongolian People's Revolutionary Party (December 1947) recorded that the Mongolian people had endured all the trials of World War II, had attained much success in the development of their economy and culture, and had strengthened their defensive power and national independence.

The concentration of the most important means of production was in the hands of the state, which also had the authority to plan the national economy in such matters as finance and credit, retail and storage prices, cost accounting, etc. The first Five-Year Plan for the development of the national economy (1948-1952) is an index of the new role of the state in the organization of production and its distribution. The most important result of the first Five-Year Plan has been the strengthening of the socialistic structure of the state and the expansion of capital construction.

The output of industrial production during the first Five-Year Plan increased by 51 percent, with an average annual increase of 9.8 percent. Under the direction of the Ministry of Industry the productivity of labor was raised by 28.8 percent, and the operating cost of production was lowered by 17.5 percent. There was considerable expansion in transportation and communications. In 1951, the Ulan Bator-Naushki (USSR) railroad [400 kilometers] was put into full operation. Also a new communications line, 1,500 kilometers long, was constructed.

The development of cattle raising, industry, and other features of economic activity have resulted in great improvement in the material and cultural life of all workers, as well as progress in science, education, and hygiene. In four years the republic was covered with an extensive network of schools, clubs, Red Corners, and other educational establishments, as well as the creation of dispensaries, hospitals, rest homes, and sanatoriums.

The Mongolian financial and monetary-credit systems have played a big part in the economic and political life of the people. The financial system has a durable basis, and it is supported by public opinion. The nature and function of the financial system are determined by the nature of the social structure in Mongolia as a national-democratic state and the cooperative ownership of the means of production. The planning of finance and credit permits their utilization for the distribution of the national income in conformity with the state policy. Financial planning and production planning are thus closely coordinated. The state budget is the basic financial plan of the state. It is adopted annually by the highest organ of state authority, the Great Assembly of the Mongolian People's Republic. By law it is the centralized monetary fund for the preservation of the national economy and for the strengthening of the national defense.

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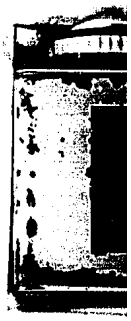

The program of the Mongolian People's Revolutionary Party points out that "in the matter of financial policy the party tries to carry out a program which encourages the breeding of cattle, the development of farms, and the removal of personal exploitation of labor." These financial policies are reflected in Article 72 of the Constitution, which emphasizes that "the whole financial policy of the Mongolian People's Republic is directed toward the improvement of the life and welfare of all workers, the decisive displacement of exploiting elements, and the independence and strength of the nation."

The successful progress of the Mongolian People's Republic finds its clearest expression in the development of the state budget. From 1.7 million tugriks (one tugrik equals one ruble; 100 mungge equals one tugrik) in 1921, the budget increased to 6.9 million tugriks in 1924, 33.3 million tugriks in 1933, and 102.9 million tugriks in 1939. During the following years, the state budget continued to increase, which is clear from the following data. The data on the state budget is taken from the yearly reports of the Ministry of Finance of the Mongolian People's Republic in sessions of the Lesser Assembly, and from 1951 on in sessions of the Great Assembly of the Mongolian People's Republic; for the following years see Unen [a newspaper]; 5 March 1949, 9 February 1950, 6 July 1951, 11 March 1952, and 14 March 1953.

Budget (in millions of tugriks)

Years	Revenue	Expenses
1940	123.9	122.1
1946	324.4	309.5
1948	326.9	320.9
1952	401.7	364.1
1953 (planned)	437.4	432.2

Thus, for the period 1940-1953, the state budget increased more than 3.5 times. The budget has been drawn up and executed every year without deficit, with more revenue than expenses, which attests to the stability of state finances. The most important condition for revenue stability of the state budget is its firm economic relationship to the Soviet Union. This provides the means for a rapid development of industry as well as the general growth of the national economy.

As distinguished from the revenues of the state and the khoshuun (khoshuun, a primary administrative unit in prerevolutionary Mongolia) budgets of former times, the main source of revenue of the state budget of the Mongolian People's Republic is income from the national economy. The taxes from the population occupy a less important place in the revenue of the state budget as compared with prerevolutionary Mongolia. The modern budget is directed toward the growth of national economy and the agriculture of the state. It reflects the social nature of the Mongolian government and its constructive policies.

The basic revenue of the state budget of the Mongolian People's Republic is derived from the production of state and cooperative enterprises and organizations, chiefly in the form of turnover tax and profit taxes. In 1940, these returns constituted 60 percent of all revenue connected with the budget. The percentages for later years were as follows: in 1948, 61.2 percent; in 1952, 64.5 percent; in 1953, (according to plan) 67.6 percent.

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Under the turnover tax, turnovers of state and cooperative enterprises and organizations are taxed according to the sale of goods and cattle, as well as earnings from the performance of services and commissioned operations. The payer of the turnover tax consists of the individual enterprise having an independent balance and a settlement account. The rates of the tax are fixed at a percentage of the over-all turnover or according to various types and groups of goods. The calculation of the tax and its payment are made by the taxpayer himself, and the control over the accuracy and the prompt entry of the tax in the budget is in the hands of the competent financial organs. Apart from the turnover tax, the budgetary mark-up and customs duties are also of great importance.

The system of profit taxes to be allocated to the budget was established uniformly for both state and cooperative enterprises. Until 1940 the income tax was paid at the rate of 15 percent of annual profits. Since 1940, the state and cooperative organizations have come to pay profit taxes into the state revenue. The amount of these taxes is fixed by the government for every large enterprise at no less than 10 percent of the total profits. The collecting is done according to quarterly accounting, with recomputation at the end of the year. From 1941 to 1952, the amount of the profit taxes from state and cooperative enterprises and organizations was repeatedly revised in the direction of withdrawal of part of their profits which remained after the payment of the planned expenditures in financing the basic costs in conformity with the national economic policy and the formation of subsidizing funds established by law.

The payment of profit taxes into the state budget increased from 9.7 million tugriks in 1940 to 60.5 million tugriks in 1953.

Aside from the turnover and profit taxes, all state and cooperative enterprises and organizations not financed by the state pay an excise tax, which in the case of commercial enterprises is divided into five categories, which range from 100 to 2,000 tugriks in the case of industrial enterprises; and into three categories with payment of a license which runs from 100 to 1,000 tugriks a year plus 50 percent added for the use of local budgets.

Receipts from taxes and levies raised from the population occupy a small place in the budget. In the budget revenue they dropped from 51.3 percent in 1928 to 29 percent in 1940 and 15.8 percent in 1953.

The cattle-breeding tax occupies an important place in the tax system. The proceeds from this tax increased by 36 percent from 1941 to 1951, but its part in the state budget income over the same period dropped from 18.7 percent to 12.9 percent. There is also a place of importance occupied by the income tax levied on the population in general.

The comparative decrease in the returns from the cattle-breeding tax was not due to any change in the amount of cattle and its quality over the last few years, but to the revision of tax legislation. According to the present law dealing with the cattle-breeding tax, inaugurated 7 June 1950, the principle was maintained that the taxation of peasant farms should be according to standard rates per head of various kinds of livestock, but instead of the previous proportional rates, progressive tax rates were set up based on the number of livestock in a peasant farm. Thus the cattle-breeding tax is collected from the peasant cattle-breeders differently depending on the resources of the farm. In the case of rich farmers, the rates are somewhat advanced. In the payment of the tax not only peasant farms and their production unions are included, but also the farms of state and cooperative enterprises, organizations, and institutions, as well as the state farms under the direction of the Ministry of Livestock and Agriculture.

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The cattle-breeding tax is calculated according to the following rates per annum:

Tax Rates per Head (in tugriks)

Farms Having a Certain Amount of Livestock	Camels	Large Horned Cattle	Horses	Sheep	Goats
Up to 20 head	3	1	2	0.50	0.25
21 to 50 head	5	2	4	0.75	0.50
51 to 100 head	6	4	5	1.00	0.75
101 to 200 head	7	5	6	1.50	1.00
201 to 500 head	8	6	7	1.75	1.25
501 plus head	9	7	8	2.00	1.50

With regard to the peasants of the production unions, the tax is levied in accordance with the minimum rates mentioned above; however, the total sum is further lowered by 10 percent. The state cattle-breeding farms are entirely exempted from the tax. Thus, the tax system is organized to strengthen and develop state and cooperative farms. This places them in a preferential position above individual farms.

For peasant farms the various tax rates are fixed on the basis of the number of livestock on the farm. This has considerably reduced the amount of tax on peasant farms having from 100 to 150 head of livestock, and has lowered even more the amount of tax on poor farms having 50 head of livestock or less. The purpose of the administrative policy is to reduce the tax burden of the poorer peasant farms. The amount of livestock actually on the farm is not taken as the basis for taxation, but the number of types classified by state plan for the preceding year. Both the peasant production unions and the individual peasant farms are completely free from taxation on livestock raised in excess of the state plan. Exemptions are also allowed to farms whose increase in livestock has been unusually large.

Aside from revenues of the state budget mentioned above, there are also sources derived from subscriptions to state loans. In the period 1940-1944, five domestic defense loans were issued by the Mongolian People's Republic, by means of which nearly 80 million tugriks were raised. Under conditions suitable to the migratory life of the majority of the population, lotteries and raffles have proved to be popular, the returns of which have occupied a lasting place in the revenues of the state budget since 1942. From 1942 to 1947, they amounted to 47.2 million tugriks. In 1949, the tenth lottery was held; in 1951, the 11th lottery and raffle were held. Each of them produced 15 million tugriks. The distribution of lottery tickets is handled by subscription with payments in installments.

In the composition of the state budget from 1943 on, social insurance payments have been included. Their amount increases in proportion to the increase of wages, for which appropriate charges are made. The sum of the returns from social insurance increased from 4.4 million tugriks in 1944 to 8.5 million tugriks in 1951.

In addition to the above-mentioned revenue the state budget also includes returns from the excise tax, timber revenue, stamp, exchange, and passport duties, and an independent source from the Central Board of State Insurance.

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Aside from the nature of the sources contained in the state budget, the allocation of budgetary funds is also a new feature in Mongolian finance. The main funds of the state budget since the early years of its existence have been directed toward the financing of the national economy and the development of social and cultural activities, the maintenance of the organs of government and the strengthening of national defense. Year by year more funds are allocated to the advancement of the material and cultural level of the workers' lives.

The appropriations from the budget for national economy in 1924 amounted in all to 675,600 tugriks; in 1936 to 9,903,000 tugriks; and in 1939 to 18,400,000 tugriks. The proportion of these budgetary appropriations increased from 14.9 percent in 1948 to 24.5 percent in 1952, and 28.5 percent in 1953. In the course of the first Five-Year Plan the expenditures for the national economy doubled. During the five-year period a total of 307,800,000 tugriks were appropriated, including appropriations applied to the development of cattle-breeding which amounted to 97,700,000 tugriks.

Expenditures (in millions of tugriks)

Years	For all Expenditures	National Economy	Social and Cultural Measures	Defense	Maintenance of Administrative Organs
1940	122.1	26.7	24.1	56.9	12.7
1946	309.3	54.1	82.5	112.6	35.8
1948	320.9	47.7	84.3	110.1	26.5
1952	364.1	98.7	111.2	53.4	31.2
1953	432.2	123.5	136.1	50.0	33.6

In the state budget, the appropriations are directed toward the improvement of agriculture in order to create conditions for the conversion of individual peasant farms into large-scale collective production, as well as to construct new industrial enterprises and direct capital investment into transportation and communications. Apart from budgetary appropriations for these purposes, funds of state and cooperative enterprises and organizations themselves are directed toward the same purpose.

A great part of the funds appropriated from the budget are used for capital construction. The amount of capital investments increased from 7,356,000 tugriks in 1936 to 19,800,000 tugriks in 1938, and 30,800,000 tugriks in 1940. If we take the figure 100 as the amount of capital investment in the national economy in 1939, in 1940 it amounted to 162.8, in 1945 to 217.2, and in 1950 to 293.4. From 1940 to 1952, tens of large and hundreds of small industrial enterprises were completed by the reconstruction program and put into operation. These included the Meat Combine (named after Stalin), wool washing, textile, harness and saddle, and knitting factories, a match factory, a distillery, hundreds of oil plants, etc. A large number of agricultural enterprises and buildings, dwelling houses, hospitals, schools, and clubs were constructed. The total amount of capital investment according to the 1953 economic plan was set at 90 million tugriks, of which 71,700,000 tugriks were to be derived from the budget, and 18,300,000 tugriks from sources of the economic organizations themselves.

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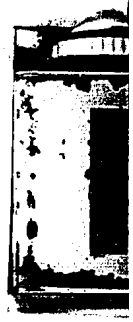

Appropriations from the budget were also applied to education, hygiene, social security and social insurance, science, and art. These expenditures have particular significance if one takes into account that until very recently Mongolia was one of the most backward countries in Asia. In 1924, the social and cultural appropriations from the state budget amounted to 223,500 tugriks, but in 1934 they amounted to 4,975,300 tugriks, and in 1939 to 17,100,000 tugriks. The proportion of increase for social and cultural needs rose from 19.5 percent in 1940 to 25.7 percent in 1945, 26.3 percent in 1948, and 31.6 percent in 1953. Over these years the amount of budgetary expenditures for social and cultural measures increased 5.6 times, from 24,100,000 tugriks in 1940 to 136,000,000 tugriks in the 1953 plan.

During the period 1940-1952, important work was done on the extension of a network of schools and the liquidation of illiteracy among the people. The number of schools increased from 112 in 1940 to 429 in 1952. Since 1947, general compulsory elementary instruction in reading and writing for all citizens has been in effect. The percentage of literacy among children of school age has increased from 10 percent in 1940 to 99 percent in 1952. The number of technical schools for the same period increased from 6 to 14, and the first three advanced educational institutions appeared, including the State University (named after Choybalsan). A network of clubs, Red Corners, libraries, theaters, and movies also appeared. The appropriations for this period in the estimate of the Ministry of Education increased from 12,300,000 tugriks in 1940 to 72,500,000 tugriks in 1953. Expenditures for advanced educational institutions and preschool children's institutions first appeared in 1942.

Because of the heritage of the past, the high illness and death rate of the population persisted for a long time. Only after the revolution in 1921, did modern, scientific medicine appear and medical institutions along with sanatory measures became available. By 1940, there were 194 medical institutions in the Republic. By 1953, the number had increased to 625. The budgetary appropriations for national hygiene increased from 6,400,000 tugriks in 1940 to 36,500,000 tugriks in 1953. The creation of a large series of medical institutions sharply reduced the high illness and death rate.

Large sums have been apportioned in the state budget for the material security of the workers in case of temporary disability, incapacity, old age, and for the distribution of state aid to mothers with many children, the maintenance of sanatoriums, rest homes, and similar institutions. In 1946, they amounted to 12,700,000 tugriks; and in 1951, they reached almost 19 million tugriks. Evidence of the improvement of the national economy may be seen in the state's systematic reduction of retail prices, the increase in the turnover of goods, and the increase of wages for workers and employees, particularly during the period 1941-1951. The latter increased by 72 percent during this period. The appropriations from the budget for the maintenance of the administrative apparatus were systematically decreased in 1953, at which time they occupied only 7.7 percent of the budget. The point of minimum expenditure for the armed forces has also been reduced.

Article 76 of the Constitution of the Mongolian People's Republic stipulates: "No expenditure from state funds is to be made if it is not provided for in the state budget or by a particular decision of the Presidium of the Great Assembly or the Council of Ministers. The expenditure of funds provided for in the state budget takes place only as the result of direct assignment within the limits of the established estimate."

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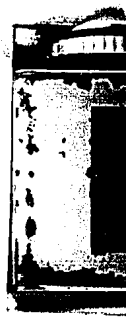

The contemporary budgetary system of the Mongolian People's Republic is compiled from the budget of the republic and the 19 local (provincial and municipal) budgets combined into a unified state budget, into which budget social insurance also enters as an integral part. All budgets which enter into the composition of the state budget are ratified by the Great Assembly of the Mongolian People's Republic.

Along with the growth of national economy, the role of the local budgets becomes increasingly important. In 1942, they constituted 14.5 percent of the total amount of the state budget; in 1949, they constituted 24 percent; in 1951, they constituted 26.3 percent. The growth of local budgets is due mainly to the increase in the network of agricultural, educational, and public health institutions. In 1953, 66.1 percent of all appropriations in the local budgets were directed to the needs of national education and health. All primary, half-time and full-time grammar schools, kindergartens, dispensaries, medical and surgical centers, and many other institutions are financed from local budgets.

The "Statute on Budgetary Rights of the Mongolian People's Republic," passed on 11 September 1944, establishes the procedure for the composition, consideration, ratification, and execution of the state budget of the Mongolian People's Republic, and apportions the revenues and expenditures of the state budget among the various budgets, providing for the formation of reserve funds from the funds of the Republic and local budgets with complete freedom from deficits.

The budgetary system of the Mongolian People's Republic is not only unified and based on the centralization of monetary funds in the hands of the state, but it is also profoundly democratic. This finds expression in the wide budgetary rights of all organs of state authority and state administration, and in the enlistment of popular support in the composition, consideration, and execution of the budget.

The creation of a unified financial system, which includes the state budget, the finances of state and social insurance, the savings banks, and the finances of the various branches of the national economy, has been made possible with the aid of the Soviet Union.

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